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C O N F I D E N T I A L SECTION 01 OF 04 BASRAH 000050

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TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [PGOV](#) [IZ](#) [IR](#)
SUBJECT: BASRA INVESTMENT COMMISSION CHAIRMAN ON INVESTMENT
DEVELOPMENTS, POLITICAL VIOLENCE, IRANIAN INVESTMENT

REF: BASRAH 49, BASRAH 21, BASRAH 17

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CLASSIFIED BY: John Naland, PRT Team Leader, PRT Basra, US State Department.

REASON: 1.4 (b), (d)

¶1. (C) Summary. Basra Investment Commission (BIC) Chairman Haider Ali told PRT EconOffs that many more investment licenses have been granted recently, and others are expected to follow soon. He said that at least for now, most new investors are Iraqi, and this trend could continue until the political and security situation improves; later, western investors could follow. In a possibly significant change, he said that the BIC and GOI Ministry of Municipalities have agreed on a new plan to avoid bureaucratic delays, and the BIC can now directly negotiate with investors the terms of some land leases. Given the uncertainties in the run-up to the January 2010 national elections, Haider Ali said that many investors are taking a "wait and see" attitude so as to see what security/political/investment climate emerges. He said that Iran-based investors continue their interest in the province, and are moving forward with a long-delayed housing complex, albeit on a scaled-back basis. He bemoaned Governor Shiltagh and the Provincial Council's (PC) "slow reaction" to a number of attractive private electricity project proposals, despite acute power shortages, and obliquely criticized the Governor's overall "slow start" and lack of business acumen. Haider Ali expressed his enthusiasm for the upcoming October Washington investment conference, to which he has been invited. End Summary.

New investments in the pipeline; new and improved BIC

¶2. (C) In a September 9 meeting with PRT EconOffs, Haider Ali expressed optimism about several of BIC's recently-awarded investment licenses. He also said that a hoped-for successful second oil/gas round could bring in more investment and jobs. He recounted eight very recent license awards in the industrial, residential, agricultural and tourism sectors, totaling some \$520 million, seven of which went to Iraqi investors, the other Iranian. (Note: While the award of an investment license is important, this is only one step in the process towards full execution, as investors must also obtain land and go through other legal processes. End note)

¶3. (C) Haider Ali said that he expects U.S.-based Baker Hughes to soon win a \$165 million, three-year investment license to build a petrochemical plant for oil additives, a welding and piping workshop, storage tanks, and a housing and office complex, all within a 120,000 square meter site within South Oil Company facilities at the nearby Rumaila oil field. (Note: According to Baker Hughes, this investment could eventually total \$500 million, as it is tailored to meet the expected

growing need for oil services from international oil companies expected to increase activities at Basrah Province's main oil fields of Rumaila, West Qurna, and Az Zubayr. End note.) Haider Ali said that he recently went with Baker Hughes representatives to Basrah University to seek engineering graduates for hiring and training. Haider Ali said that Baker Hughes will initially hire 20 engineers, but could need another 700 in 2-3 years.

¶4. (C) Haider Ali said that a \$150 million license had been awarded to a well-known Basra-based industrial investor, Ali Jesari, to build a cast iron pipeline factory. Another license was granted to a local family conglomerate to build a private maternity care hospital alongside an existing private hospital owned by the same family. Other licenses include a \$150 million project to recycle oil and gas waste from ships, to be built inside the Port of Umm Qasr, two amusement parks in Basra city, a cement factory, and a small reverse osmosis water treatment facility.

¶5. (C) Haider Ali said that BIC had recently awarded an investment license to a Kuwaiti firm to build a new hotel close to the Basra International Airport. (PRT has long advocated to airport authorities the need for such a hotel.) He also said that he heard indirectly that the Ministry of Transportation had directly awarded a local firm the right to refurbish the old UK Division headquarters building next to the PRT, to convert it into a hotel.

¶6. (C) Haider Ali expressed enthusiasm about a new BIC initiative to begin an on-line job database for engineers, technicians, and lawyers, for the growing number of prospective investors. He said that he now has about 3000 CVs, and BIC has begun to advertize on radio, TV, and Basrah University to seek more CVs for this matchmaking service. He also expressed enthusiasm about BIC's recently updated website, investbasrah.com, now in seven languages. He said that he began working with regional media giant al Arabiya, and BIC will begin placing weekly spots with the network in an attempt to "improve Basrah's image."

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At least for now, national investors are the best way forward

¶7. (C) Noting the preponderance of strictly local investors seeking and gaining approval for projects (apart from large hydrocarbon investments, which are generally contracted on the national level by western firms), Haider Ali said that this trend might be the best, and only, way forward to bring about more stability, until and if a more stable security, political and investment climate emerges. He also indicated that the population -- and political sensitivities -- might also not be quite ready for large scale foreign investment, or at least from outside of the Arab/Persian Middle East. And Haider Ali said that for many western investors, there is still "too much uncertainty, change of government, change of rules," and this is all "hard for these outsiders to understand."

Important change in land use laws could speed up investments

¶8. (SBU) In what could significantly speed up some new investment projects in the province, Haider Ali said the BIC and GOI's Ministry of Municipalities had recently agreed to a new streamlined procedure for establishing the terms and conditions for the leasing of land (he said that this new procedure had also been established for Najaf and Babil provinces). The Ministry of Municipalities recently granted the BIC the right to directly set land and rental terms for investment projects. One of the principle stumbling blocks hampering approved investments from actually taking off has been the inability of investors to obtain favorable land lease terms (i.e. lease duration and price). After the BIC issues an investment license, the investor often must confront an interminable delay -- or

outright rejection -- in obtaining the needed multi-year land lease from the respective GOI line ministry controlling the identified land. A four-person committee comprised of representatives from the DG of Taxes, Ministry of Municipalities, Ministry of Finance and BIC will work out a procedure by which the BIC can establish a set price and lease duration for investors to lease land. Once the terms are set, they would go to the Ministry of Municipalities for rapid approval.

¶9. (SBU) Note: While a lot of the prospective land for investment use that lies within Basra city limits is controlled by the Ministry of Municipalities, a lot of other land, particularly larger parcels and outside city limits, is controlled by other ministries, typically Transportation and Finance, and this new procedure will not apply to them. End note.

The 300 pound elephant in the room: security in the run-up to January 2010 national elections

¶10. (C) While Haider Ali expressed overall optimism about Basra's medium and longer term investment outlook, he was more restrained about the uncertain political and economic climate in the run-up to the January 2010 national elections, and the possibly of political violence. Haider Ali is a cautious technocrat and generally reluctant to talk about these issues -- "it is all about power, and I try to stay out of it." But when pressed, Haider Ali admitted that "security questions," election issues, and uncertainty about possible changing rules under a new national government, are still the "top questions investors ask me about." He also said that other investor concerns include the uncertain investment law, and the "muddled" intra-governmental relationships, particularly among and between directors general of state owned companies (e.g. South Oil, South Gas), and other national and provincial authorities.

¶11. (C) Haider Ali reluctantly agreed that for some investors, a "watch and wait and see" attitude until after the elections and formation of a new national government is understandable and even advisable. (Note: During a recent discussion with PRTOffs, per ref A, Colonel Hazam, head of the Iraqi Intelligence Service's Fusion Center for the Basra region, predicted an increase in violence leading up to the elections. End note.) Other PRT contacts also fear that the situation could get worse in the coming weeks.

Iranian investors still interested in Basra

¶12. (C) Haider Ali confirmed a "continuing and active" interest on the part of Iran-based investors in Iraq, and said that Basra Province appears to be a particular focus. He said that a

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long-stalled proposal for a housing and shopping center (refs B and C) by the Iran-based Karman construction firm could be poised to move ahead, subject to final financing and mortgage terms, albeit on an initially smaller scale than originally envisioned. (Note: According to other BIC contacts, Karman, and its parent Abb Hayatt, which Haider Ali said owns some 2000 companies in Iran, are owned by former Iranian president Rafsanjani's brother-in-law. End note.) What had originally been a single, \$1.5 billion housing/shopping mall/hotel complex will now move forward in separate stages. The first stage will be a \$226 million project in Zubayr neighborhood of Basra. The initial phase will be a 5,000-unit housing complex, comprised of 1500 houses and 20 multi-story buildings. The second phase envisions malls and markets; the third, several hotels. These subsequent phases would be open to other investors to bid on.

¶13. (C) Haider Ali said that Iran-based businesses have also expressed interest in building consumer appliance assembly facilities in the province, to make items such as liquid crystal display (LCD) flat screens, washers, dryers, and dishwashers.

(Note: Unlike other local contacts, Haider did not express any reservation -- pro or con -- about possible growing Iranian economic presence. Whether this is due to economic pragmatism, cautious diplomacy, indifference, or even a pro-Iran bent is hard to gauge. End note.)

Proposals for new power plants; criticism of Governor Shiltagh

¶14. (C) Haider Ali, a mechanical engineer with experience in electricity generation projects, lamented that many "excellent" private electricity generation proposals being sent directly to the Governor and Provincial Council are not being acted upon, all amidst severe electricity shortages. He cited three recent proposals, from the Kuwait Al-Ghannim family business (one of the largest trading families in the Middle East), and two others from Lebanon and Iran, in the range of 600 megawatts, which would involve Ministry of Electricity fuel supply guarantees, and costing between four to six cents per kilowatt hour. He mildly criticized what he said was Governor Shiltagh's so far "slow start" demonstrating progress to an impatient public. He said that the governor "does not really understand" investment and the importance of it to Basra's future, and that he is "too busy fighting politics and power." He singled out PC Chairman Jaabar as being much more "clever and decisive," and "able to get things done."

Biography

¶15. (C) Haider Ali is a regular PRT contact. The previous, UK-led PRT worked closely with him and his organization, and he has attended a number of international investment conferences, including ones in London, Turkey, Japan, and Northern Ireland. (He also enthusiastically confirmed his attendance at the October 20-21 Washington investment conference.) He is clearly anxious to promote the culture of economic investment in Basra. Relatively young for his position at 35, he holds a masters degree in Mechanical Engineering from the University of Basra, where he currently teaches while also pursuing a doctorate in the same field. Haider Ali has also carried out several engineering studies related to electricity generation and tower construction, and has supervised projects relating to water, roads, and electricity distribution. He is close to former Basra Governor Mohammed Wa'eli, from the Fadillah party, and who appointed him to this position. Due to his closeness to Wa'eli, some contacts had speculated that the new provincial government would appoint a new chairman, or that his days could be numbered (Governor Shiltagh's son recently told PRTOffs that Ali is in the "wrong party," and will soon be replaced). Nonetheless, Haider Ali has remained, and many attribute his staying power to a positive attitude, and some solid progress in investment promotion. An openly devout Shi'a Muslim, Haider Ali is married and has three daughters. He speaks decent English.

Comment

¶16. (C) While Haider Ali's enthusiasm and impressive list of new investments is encouraging, most PRT contacts -- Haider Ali included -- right now have a "wait and see" attitude in terms of investment. Given that we are now in full election season, and uncertainties exist regarding possible political violence, a new national government, and new investment rules, this is understandable. However, if the situation remains generally calm in the coming months, and the next national government is reasonably pro-business and does not change the rules too much, Basra could continue on its slow but steady road towards greater

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investment.
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